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PurchasingWorld®

THE BUYER'S MAGAZINE

SEPTEMBER 1989

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The foreign exchange • Notes for new buyers

Buying in ZD environment • Bar coding, MRP, and Kanban

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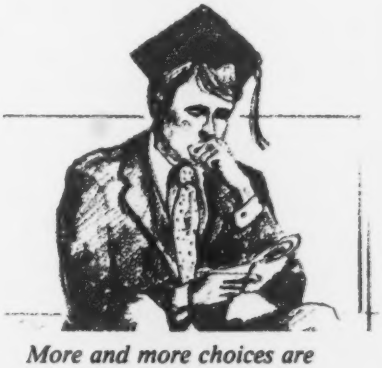

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Report on the annual National Office Machine Dealers Association show in New Orleans and the Computer Business Equipment Manufacturers Association report on prices.

Financial expert tells how to hedge your bets on commodity buying through options and futures strategies.

Exclusive report from Data Resources Inc. on commodity prices into 1991.

PW Predicts prices and trends on electronic components and energy supplies, and other markets.

DataTrak reports on trends in R & D spending and fleet car use along with the monthly look at steel and other commodity trends.

PurchasingWorld

Bellwether Software Corp.

We inadvertently omitted Bellwether, a purchasing software supplier, from our August listing. Their PMS-2 offers a full-function purchasing system for the IBM PC/XT, AT, PS/2 and compatibles. It includes four modules: purchasing, receiving, requisitioning and inventory. Additional modules can be added when the user is ready. An import/export utility allows transfer of data to and from any mainframe, mini, or micro software system. For more information, contact the company at *9900 Shelbyville Rd., Suite 6-B, Louisville, KY 40223* or **Circle 30**

Computer transportation newsletter

A monthly newsletter reporting on the use of computer technology in the transportation industry and international trade is available from *International Thomson Transport Press*. Every month, the newsletter will analyze how computer and information technologies are being applied by transportation companies, shippers and third-party services to control their cargo, keep track of equipment and speed the flow of international trade. The newsletter will be augmented by a weekly fax news service, which will reach subscribers every Monday with the latest developments in the industry. *International Thomson Transport Press, 424 West 33 St., New York, NY 10001* **Circle 298**

Whatever lights your night

According to lighting fixture manufacturers, the use of specular (mirrorlike) reflectors in fluorescent and other types of lighting fixtures is on the upswing and offers many advantages. Weirton Steel Corp. is helping the industry with a strong, smooth, shiny, special-finish steel to upgrade lighting efficiency. Specular reflectors utilize a silver film which is permanently laminated to a specialized substrate—such as Weirton's ultra-smooth black plate product. "New technology made possible the steel of superior quality we supply for these reflectors, and new technology is also helping cut lighting casts without sacrificing light levels. That's progress," says Harold Baker, Weirton's manager-market development, Tin Mill Products Sales. *Weirton Steel Corp., 400 Three Springs Dr., Weirton, WV 26062-4989.*

Airing it out

Contract Freighters, Inc. has created a transportation service—called AirOne—designed for air freight customers. According to Glenn Brown, president of the Joplin, MO-based international motor carrier, CFI is the first truckload carrier in the nation to make a commitment to the pickup and delivery of air freight. CFI has been transporting cargo regularly for the past several years for most of the large air freight companies such as Federal Express, Airborne and Burlington Air. AirOne is an expansion of this service providing coverage to shippers and consignees in all 48 states, Canada and Mexico. The company has a fleet of 2,300 air-ride trailers and 1,000 late-model trucks offering through-trailer service in and out of Mexico and has direct authority to most of the Canadian provinces. *CFI, 2900 Davis Blvd., Joplin, MO 64804*

Fire safety seminars

Free training seminars for fire protection and safety engineers in their employee training programs can be custom designed to meet specific time constraints—from 1½-2 hours is recommended.

Drawing on more than 80 years' experience, Justrite Manufacturing Co. personnel will describe the basic characteristics of flammables and combustible liquids, define important terms and demonstrate how dangerous properties can be controlled. Seminars include audio-visuals, fire demonstrations and lectures. *Justrite Mfg. Co., 2454 Dempster St., Des Plaines, IL 60016* **Circle 299**

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by Robert S. Reichard, executive editor

Kicking into neutral

More good news on the pricing front: The big push of late 1988-early 1989 is just about over. The evidence is pretty conclusive: most key industrial inflation yardsticks are now shifting into neutral—with even a few declines thrown in for good measure.

Preliminary estimates, for example, suggest that industrial producer price averages over the current 3-month period will show at most only a fractional advance—a far cry from the near 8-10% rate of increase noted over the first two quarters of 1989. To be sure, the earlier increases reflected a big jump in oil (an area now in falling trend). But even if you remove the distorting influence of energy, there seems to have been a notable deceleration in the rate of overall rise.

The improvement has been most noticeable in the raw and semifabricated areas—with the major impetus here coming from improving supplies (as measured by falling operating rates). Factory utilization in the primary processing industries has fallen to near the 85% mark—about three and a half percentage points under the 88.4% January high.

Moreover, a broad range of products has been affected by this supply/demand shift—including many chemicals, plastic resins, paper products, steel and construction materials. More important—if all this continues, it could well portend fewer and smaller price hikes in the finished goods sector.

The NAPM Purchasing Price Index also backs up the feeling of an improving inflation picture. The latest reading of that group's seasonally adjusted index dropped to 46.9 (where 50 equals no change). That's the lowest level in well over three years—with even the economic bellwether corrugated shipping containers heading lower after many years of increasing prices.

Import quotes are also contributing to the current price lull—aided in large part by a slowly strengthening dollar—something which, other things being equal, tends to lower landed costs. In any case, the latest reading of Uncle Sam's import price index shows averages (ex fuels) heading down for the first time in more than a year.

Actually, there's a double-barreled effect here. Not only does a decline in this index spell relief for the products imported, but it should make domestic producers a lot more cautious in posting increases on their own lines that compete with imports.

Still another favorable sign: The absence of any labor cost acceleration. Average hourly earnings in the nonfarm economy have been relatively flat in recent months—compared to about a 2.5% annual rate of advance in the first quarter and the even bigger 3% jump noted for all of last year.

Zero in on manufacturing, and the picture is even rosier. A new study of factory unit labor costs (see this issue's Datatrak section) shows that last year these costs rose only 3.5%. But since productivity jumped 3.2%, the annual unit advance came to only a minuscule 0.3%. And early 1989 suggests a continuation of this trend.

In short, the two basic determinants of price—labor costs and supply and demand balance—now seem to be under control. The latter is also helping to make for a modest buyers' market in some sectors—as witnessed by the fact that an increasing number of PMs are now able to delay or water down announced vendor price increases. It's a lot different from six months ago when most hikes were going through unchallenged.

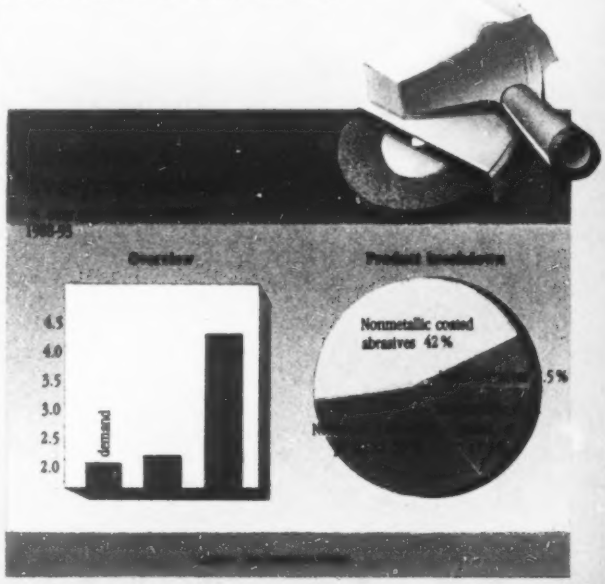
Given all the above, it's not surprising that most price forecasts are being revised downward. An informal *PurchasingWorld* survey of top economists, for example, finds that they've knocked nearly one percentage point off their earlier projections.

The current consensus for annual rates of increase over the second half of the year: GNP price deflator (4.5%), industrial producer prices (1.5%) and cost of living (4.0%).

Abrasive industry catches up

The $3.1 billion abrasive industry has recovered from its difficulties of the late 1970s and early 1980s—and is once again keeping pace with general economic growth.

More important, a new study by the Cleveland-based Freedonia Group sees this growth continuing—with total sales reaching $3.9 billion by 1993 (the equivalent of a 4.3% annual rate of advance).



Also on an upbeat note—improving demand is not expected to put all that much upward pressure on prices. Indeed, Freedonia analysts, citing strong competition, see price increases averaging out at 2.2% a year—actually a bit under the likely overall inflation rate.

Part of the demand optimism stems from a still-reviving U.S. manufacturing sector. Moreover, advances in product design are expected to spur buying as producers of new equipment seek higher quality and efficiency. Expected improvement in the U.S. abrasives trade will also help domestic producers.

The fastest growth is expected in the billion dollar nonmetallic abrasive product category which consists mostly of bonded abrasives, where annual dollar increases of 5.5% a year are seen through 1993. Strength here is based on the expected acceptance of improved, application-specific products in the cutting and grinding of glass, ceramics and plastics as well as in metalworking.

Meantime, the even bigger (40% of market) nonmetallic coated abrasive sector should experience average current dollar growth of 4.4% a year. But both nonmetallicized grain as well as metal abrasive dollar shipments will expand only 2.4% and 3.0% respectively—with both of these segments held back by competition with other abrasives and increased efficiencies in abrasive use.

Viewed from an end-market-use perspective, service areas will be the fastest growing—with the manufacturing sector (80% of the total market) showing only average growth. Slower, though still positive growth (in real terms) is also likely for construction and other markets—as public works and consumer spending register gains.

Polyethylene prices erode

Price erosion is still the order of the day. Latest reports put LDPE (linear grade) down in the 38-40¢/lb. range—off 4-6¢/lb. from late spring and 12-14¢/lb. from the 52¢/lb. quote of early 1989. And export tags as low as 27¢/lb. have been reported. HDPE prices are also said to be weakening. Behind the slippage: a slackening off in demand (little or no change is seen for the year) at a time when big capacity gains are projected (6% for LDPE and 8% for HDPE). And even bigger double-digit capacity additions are on the boards for 1990.

Aluminum stocks inch up

Ingot is taking on a weaker tone, with market prices in recent weeks quoted in the low 80s range—well under this year's $1.13/lb. high. In part, this can be attributed to all-out production—especially here in the U.S. where year-to-date totals are running about 4.5% ahead of last year. One result: inventories are beginning to inch up—though they are still well under the normal 2-month supply. Further assume only small increases in consumption over the next few quarters—and prices could drop into the 65-75¢/lb. range by next summer.

Import tags looking better

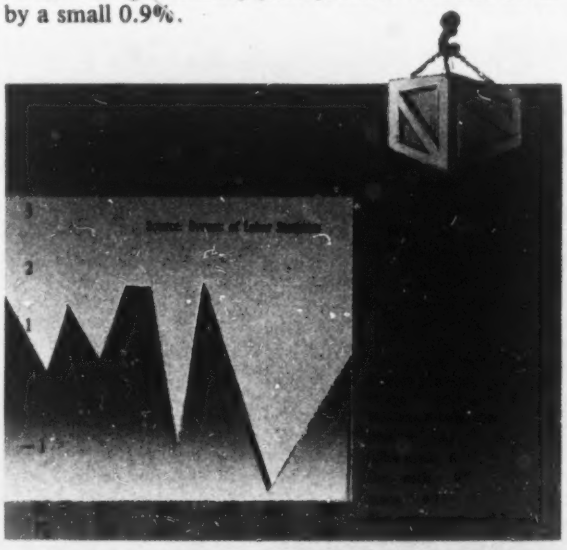
Import tags are beginning to look a little more attractive again.

True, they haven't returned to the low levels of a few years back. But over the past quarter, for the first time in more than a year, they edged a bit lower—thereby leaving average tags (ex fuel) only 1.5% above 12 months earlier.

Some of this, of course, can be attributed to the recent dollar strengthening—something which, other things being equal, makes incoming shipments lower in price. But another factor could be the generally more competitive position recently noted in many key global commodities.

A more detailed rundown of key subsectors of imports for the latest available quarter follows immediately below.

- **Crude materials:** The last quarter marked only the third time in nearly four years that this category fell (the actual decline: 1.4%). Behind the drop: slippage in both crude rubber and textile fabrics.
- **Fuels:** A surge in crude oil made for an 18% jump. But subsequent declines in this area suggest the current (3Q) results here will be negative.
- **Chemicals:** Prices (off 2.7%) fell for the first time in two years. Reductions were noted for both organics (down 3.1%) and inorganics (down 7.0%). Fertilizers were also somewhat lower.
- **Intermediate manufactured goods:** The first decline in four years (down 0.7%) is attributable to a big 7.9% fall in nonferrous metals—offsetting stable to slightly higher quotes in other products. Nonferrous items heading lower included nickel, zinc, copper, aluminum and precious metals.
- **Machinery and transport equipment:** Averages here were off 0.6%. Substantial dips were posted in scientific apparatus (3.0%), specialized machinery (2.3%), and metalworking machinery (2.2%). Autos were also down—by a small 0.9%.



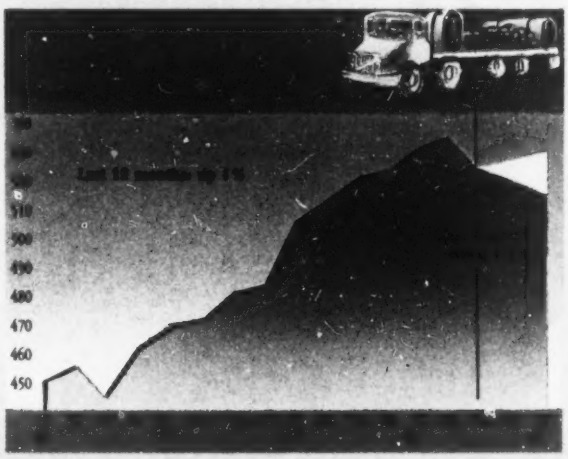
Steel markets soften

CURRENT SITUATION: Markets continue to soften. Signs of the times: 1) recent announcement of an additional $20/ton discount on MR and CR sheet and hot-dipped galvanized sheet, 2) a decline in alloying metals which is bringing prices of specialty steel down and 3) the more aggressive foreign wooing of U.S. customers with discounts. The latter suggests that the new 2.5-year extension of the Voluntary Restraint Agreements (VRAs) won't have too much near-term impact on prices—**as a growing supply glut becomes the major price determinant.**

DEMAND: The current lull is expected to persist. Fourth quarter shipments, for example, could fall to under 19 million tons—**leaving the year's total at only about 81.5 million**—down significantly from last year's 84-million-ton level. Behind the slippage: Weakness in the auto and construction sectors—plus some inventory correction (about a 1.5-million-ton paring is expected in the second half *versus* the more than .5-million-ton first half accumulation).

SUPPLY: A declining steel operating rate tells the story. American Iron & Steel Institute figures, for example, have been hovering only around the 80 mark this quarter—in marked contrast to the near-90 reading at the beginning of the year. Part of the decline, of course, can be traced back to reduced buying. But another factor could be some modest increments in steel-making potential—to about 115.5 million tons this year (up slightly more than three million tons from 1988).

PRICE OUTLOOK: Market forces point to further slippage—though the reduction in flat-rolled galvanized quotes may have been overdone. In any event, the composite price of the metal (based on Wharton Econometric estimates) may fall to as low as $589/ton by early 1990—**off some 5.5% from the recent second quarter 1989 peak. After that, look for a slow bottoming out.** But even in 1991, Wharton sees the composite price at only $526/ton—still under recent peaks.



Lumber supplies reduced

A reduced timber supply from U.S. forests has pushed West Coast prices up sharply. Early summer levels, for example, are up by these amounts from late 1988: Sanded plywood AD ¼ (20%), plywood sheathing ½ CD interior (12%) and 2x4s (24%). And more advances are seen, with increases over the next year for all of these grades put at 21%, 6% and 5%, respectively. Average West Coast chip tags are also up this year—by about $35/bone dry unit.

Copper levels off

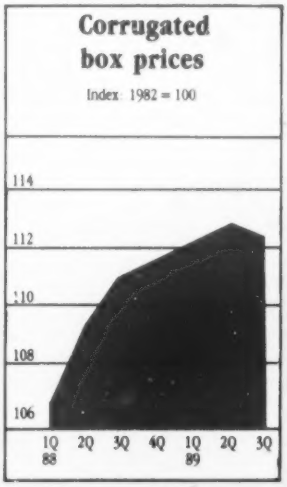
The red metal has recently rallied due to labor problems abroad, but the overall supply prognosis is good. —thanks to increasing production—especially in the U.S. and Chile. All in all, global output should be up about 3.5% this year—well above the 1% or so gain seen for consumption. As such, some further weakness can't be ruled out—with prices possibly flirting with the $1/lb. barrier by year end or early 1990. Even so, that would still leave room for profit—for costs continue to hover around the 55-60¢/lb. mark.

Computers

Workstations with several times the processing power of today's entry level $10,000 machines could hit the market within two years. Probable price: in the $5,000 range. Aim of producers is to compete with high-performance personal computers. Moving on to more powerful machines, a price war has broken out in mainframes—with both IBM and Amdahl slugging it out for a slow growing market. Upshot: discounts of up to 35% are being reported.

Packaging prices pressured down

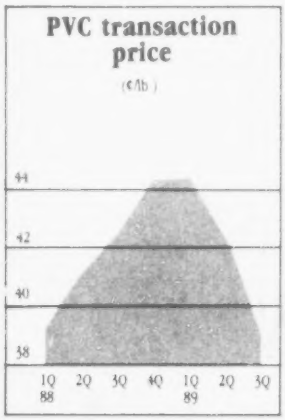
An improving supply/demand situation is beginning to put downward pressure on prices. This is especially true in the plastics area where softening resin tags



are forcing reductions in films, molded components, laminated stocks and plastic bags. On the paper front, corrugated and kraft bags have both begun to ease a bit—though folding cartons are somewhat higher. Glass containers, meantime, remain unchanged. Ditto, metal cans (despite recent press reports of rising quotes).

Polyvinyl chloride stays soft

Persisting softness has knocked another cent off transaction quotes, with pipe grade resin now going for only 39-40¢/lb. And all signs point to more declines



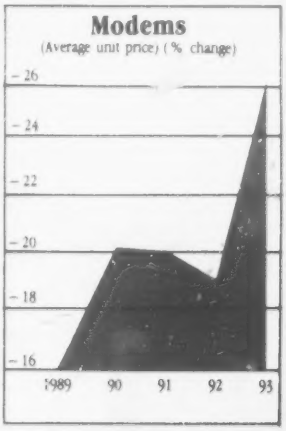
this fall as the construction market remains basically weak. Some sales to non-construction markets have also tapered off—with only exports remaining relatively strong. All in all, shipments are likely to advance by only about 2% this year—at a time when new potential could be up by more than 8%. Result: operating rates will fall five percentage points this year—to the 86% mark.

Zinc on the rise

Currently relatively strong demand from steelmakers (both continuous galvanizers and hot dippers have been in the market for the metal in recent weeks) has made for a 2¢/lb. increase. But that should be it for a while as producer metal remains relatively plentiful. Then, too, consumption could be in for a breather. Specifically, with Detroit planning on possible production cutbacks this fall, the plating metal may face some additional downward pressure. There's little chance for any major run-up—one that would bring tags back up to the 95¢/lb. peak of earlier this year.

Modem quotes still down

Prices are still heading south. This year's average quote, for example, is likely to be only around $443—down 16% from last year.



And the trend is expected to spill over into 1990. A new Dataquest estimate for that year calls for a close-to-20% additional decline (enough to bring the average unit price down to $355). And for 1991, projections call for a further decline to around $286—off another 20% or so.

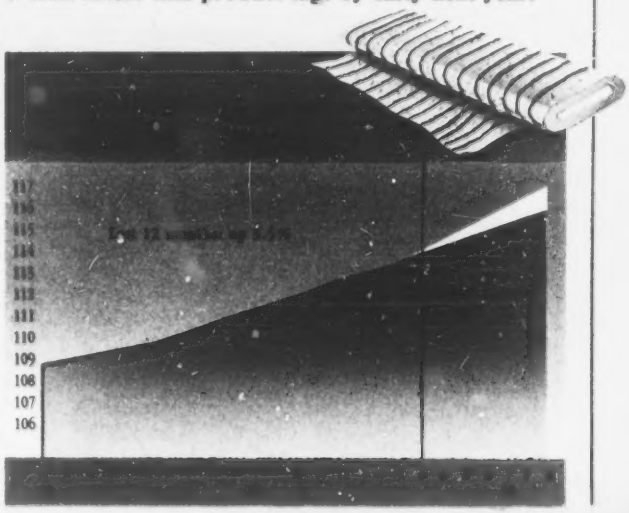
Raw materials push textiles up

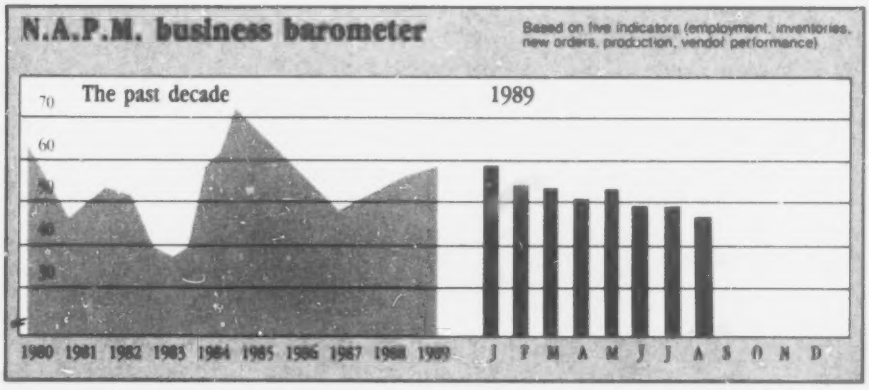
CURRENT SITUATION: Prices are slowly edging up. Blame it on a combination of factors—the most important of which are rising raw material costs. On the fiber front, for example, both cotton and polyester quotes have taken off. Nor has polyester been the only manmade fiber to advance. Add in increases in acrylics, rayon and nylon—and it's easy to see why the overall synthetic fiber price average is now running upwards of 10% above year-earlier levels.

DEMAND: Current year-to-date production trends suggest about a 4% increase in mill output this year. Another positive sign: shipments of polyester staple are running at a 3% rate of advance over the same period. This can hardly be called a boom. But it's certainly a lot more robust than last year's fractional 0.4% output gain. Part of this can be traced to stepped-up consumer apparel purchases—as a drop-off in big-ticket durable spending leaves people with more cash for clothing purchases.

SUPPLY: Some snugness is suggested by current close-to-capacity operating rates—92-93% for textile mill products overall and about 95% for especially tight manmade fibers. Some slowdown in Chinese shipments is also reported—but this is likely to prove temporary. And on the manmade fiber front, polyester should remain tight into next year—as Eastman Chemical closes down its 240 million-lb. (nearly 10% of U.S. capacity) South Carolina plant.

PRICE OUTLOOK: The drift upward will continue—as fabric makers (aided by good demand) press for pass-throughs of recent fiber increases. And this should be a continuing process if, as expected, cotton and polyester move still higher over the coming months. Foreign mills—also faced with higher material costs—want higher prices, too, and this should make domestic boosts easier to post. **Best bet: about a 2-3% increase in overall textile mill product tags by early next year.**

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Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
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70
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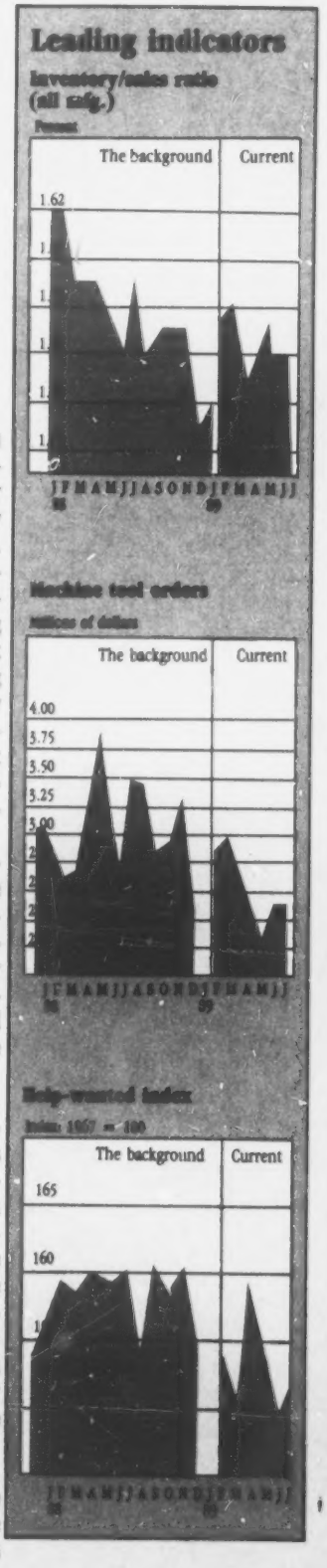


KEY ECONOMIC TRENDS

The slowdown takes shape

Slowdown—yes, recession—no. That seems to be the scenario shaping up for the next few quarters.

True, there are a few Nervous Nellies who see an actual downturn just around the corner. And to back this up, they point to drops in such key economic yardsticks as the NAPM Business Barometer (see chart).

But such gloom and doom projections are hardly justifiable. More to the point: there are still some fairly strong positive factors around that should be cushioning the economy through the remainder of 1989—and into early 1990 as well.

For one, exports remain quite robust. The latest NAPM survey in this sector, for example, shows 72.9% of respondents now exporting—actually up from the previous month. Equally significant, PMs reporting gains in exports outnumber those reporting declines by a better-than-two-to-one margin.

Inventories also remain in good shape—thus assuring that any orders that do come in will be quickly translated into new production. In any case, the stock/sales ratio for all manufactured goods is currently well under the average of last year (see chart)—in marked contrast to the inventory increases that normally occur during the mature stages of a business upturn.

The capital goods sector also remains quite robust. Machine tool orders are down from last year's highs (see chart), but by and large, they're still well above the lows of a few years back.

Confirmation of a relatively good outlook here also comes from the Commerce Department's series on nondefense capital goods orders. Totals at latest report were actually running 5% ahead of a year ago—a pretty good sign that this area is still buoyant.

The consumer also isn't about to pull completely out of the market. That's not to say that auto sales have been all that great. On the other hand, total spending (sparked by soft goods purchases) continue to inch ahead.

More important, John and Jane Q. Publics' confidence recently hit a 20-year high according to a new Conference Board survey. The New York-based research firm says this yardstick of future spending rose 3% over the latest available month—adding that a combination of low unemployment, falling interest rates and very modest price rises are all contributing to the consumer's basically upbeat mood.

Another particularly encouraging finding of the survey: an expected increase in the number of respondents planning new car purchases. Big-ticket appliance buys are also expected to rise. Ditto, the purchase of new homes.

On the latter score, F.W. Dodge (compiler of construction statistics) feels that prospects for the second half being better than the first half are good. Following up on this, George A. Christie, Dodge's vice president and chief economist, observes that 1) falling mortgage rates should help and 2) sales of new homes have picked up since early spring.

Finally, as noted above, the unemployment figure isn't all that bad. And while help wanted advertisements

Continued...

...continued

are off somewhat, (last chart) there's little indication that jobless totals are about to take off.

Put all the above into the hopper—and it's easy to see why most economists and econometric forecasting models are still predicting gains (albeit small ones) for the next few quarters. Wharton, for example, sees real GNP advancing at a 2-2.5% rate into early next year—pretty much a repeat of recent spring levels.

Sure, it's no boom. But by the same token, it's not all that bad for an economy that will be entering its eighth straight year of upturn at year end.

CURRENT PRICES

Can the IPI be true?

It's almost too good to be true, but Uncle Sam's comprehensive industrial price index has been declining for two straight months now.

To be sure, the fall has been minuscule—0.1% each month. On the other hand, that still adds up to a better-than-1% annual rate of decline. More important, it's welcome relief after the big advances of late winter and early spring.

In a sense, this latest reading is even more encouraging than that of last month when most of the downward pressure came from energy. This time around, for example, while energy did fall a bit, the overall decline was spread out—with individual subsectors shaping up along these lines:

- **Energy:** still edging down were gasoline, residual fuels, jet fuels and liquid petroleum gas. But these slippages were modest and partially offset by increases in natural gas, home heating oil, diesel fuel and coal—with the latter due to recent work stoppages.
- **Nondurable materials:** heading lower were organic chemicals, industrial gases, plastic resins, fertilizers, paper and paperboard. These more than offset advances in textile fibers, textile fabrics and paper office supplies.
- **Durable materials:** copper, aluminum, steel and several metal scrap items were off. True, lead and zinc moved up—but not enough to prevent an overall 0.6% decline in this key industrial procurement area.
- **Components:** A mixed picture here. Electronic components were off 0.2%. But bearings and fasteners held unchanged after earlier gains. At the other end of the spectrum, motors and generators moved higher.
- **Capital equipment:** No overall change here after recent spring advances. Cars were off, reflecting earlier than normal discounting of 1989-model cars. Trucks were down, too. But small increases were recorded in such sectors as material handling equipment, office equipment and transformers and power regulators.

Where do we go from here? Best bet: a continuing of the current trend—with preliminary estimates for September pointing toward more price moderation on a combination of increasing supplies and slowly decelerating economic gains.

U.S. industry forges ahead

There's mixed news on the international competition front—though on balance things are beginning to look up for American industry.

The one problem is that while U.S. factory productivity managed to rack up a solid 3.2% gain last year, it was more than matched by many of our industrial trading partners (see first section of the accompanying chart).

On a rosier note, however, is the fact that small U.S. manufacturing labor cost increases (3.5%) held our unit labor costs relatively unchanged. That's in sharp contrast to the big unit labor cost runups in most other countries—runups sparked by both large labor cost advances and the deterioration of the U.S. dollar (see second section of chart).

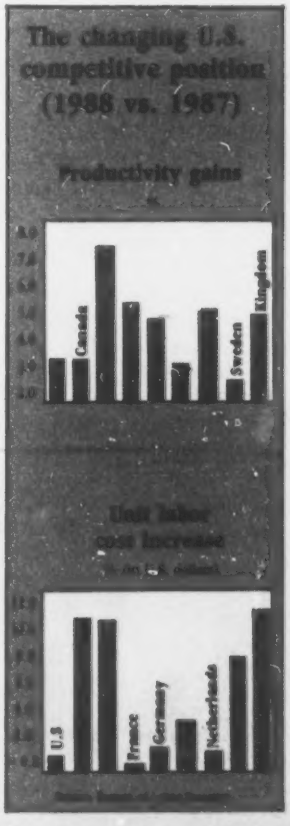
Looking first at productivity: as good as the U.S. gain was, it was dwarfed by advances of Japan (7.6%), France (5.3%), United Kingdom (4.9%) and Germany (4.6%). Canada, our biggest trading partner, however, reported the same 3.2% gain as the U.S.

As for hourly wage costs—the 3.5% increase in the U.S. last year was small compared to those reported by most of our overseas competitors. The United Kingdom increase here was an eye-opening 8%—with much-bigger-than-U.S. boosts also reported for Sweden (6.7%), Italy (6.4%), Canada (6.2%) and Japan (5.4%).

Add in dollar deterioration, and it's easy to see why overseas unit labor costs in these nations (calibrated in dollar terms) rose much faster than they did here—despite the higher efficiency gains noted for these countries.

Unit labor cost increases of 12% and 11%, for example, were reported in the United Kingdom and Canada, respectively. And a huge (near 13%) rise in the value of the Japanese yen in 1988 more than offset a big Japanese productivity gain—resulting in an almost-as-big 10.5% jump in Nipponese unit labor costs.

Combine all these changes, and the U.S. unit labor cost relative to the trade-weighted average of 11 other countries dropped by nearly 8% last year. And this could well be one of the reasons why our balance of trade has begun to improve.



PROCUREMENT STATUS REPORT

The sellers' market fades

It's a brand new ball game as the strong sellers' market of the past few years gradually begins to fade.

The obvious sign, of course, is the percent flattening out in the inflation curve. But equally important are the growing number of indicators signalling that most products are now a lot easier to come by.

Some of this could be due to the traditional summer order slowdown. But this time around the easing looks to be more than seasonal.

A case in point: The NAPM's delivery performance index, after adjusting for seasonal distortions, dropped for the third consecutive month. In any case, it's now more than three percentage points under the neutral 50 mark. Implication: the number of products being delivered at a faster pace now exceeds those where some slowdown is still being noted.

PurchasingWorld's exclusive leadtime index tells much the same story. The latest reading (48, where 50 is again deemed to be neutral) suggests that more items are coming in than are stretching out. Incidentally, this has been pretty much the pattern now since late spring.

Other signs indicative of an easing market:

- Only eight items are now on NAPM's short supply list. That's two fewer

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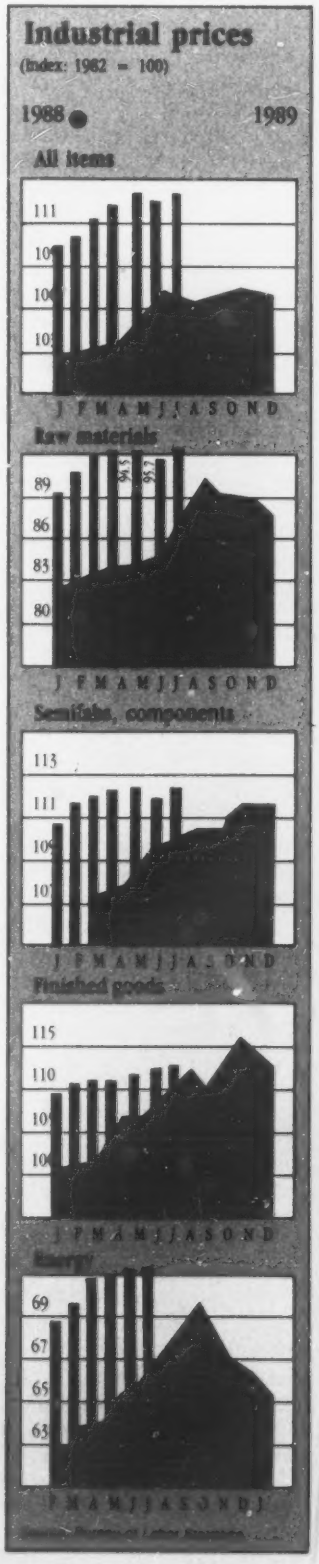


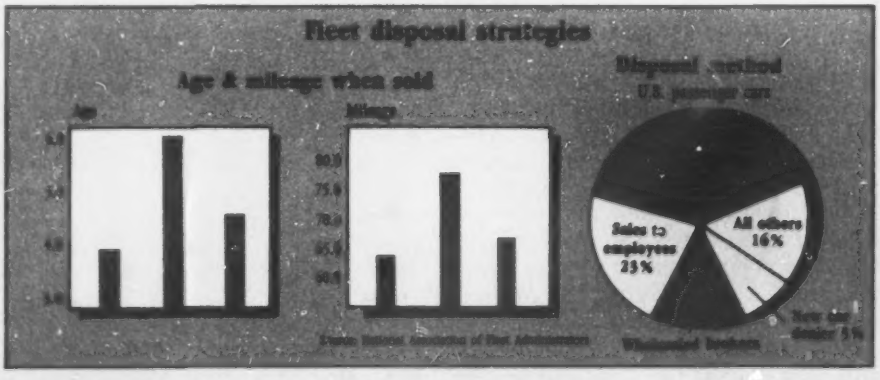
Selling the fleet

Looking for yardsticks for disposal of used fleet cars? Here's what the latest National Association of Fleet Administrators (NAFA) survey of 235 U.S. fleets suggests:

- **age and mileage:** The typical U.S. car is held for 39.2 months (about 3.25 years)—with an average odometer reading of 63,163 miles. Minivans are kept 40.5 months and light-duty trucks 60.2 months.
- **time of sale:** Some 15% of queried fleets sell the majority of their vehicles in May. This is closely followed by October and April—with 14% and 13% of fleets saying those are their busiest sales months.
- **method of disposal:** Auctions are by far the most popular way—accounting for about 42% of the cars sold. Other approaches (in descending order of use): sales to employees (23%), wholesale and brokers (14%), trade-in to new car dealers (5%).
- **recovery price:** The average fleet recaptures anywhere from 35-40% of its original purchase price.
- **reconditioning before sale:** This is not very prevalent—with one third of all U.S. fleets saying they never recondition—and another 35% admitting to "rare" reconditioning.

The new study also finds that when a U.S. driver's employment is terminated, nine out of 10 times his or her "extra" vehicle will be reassigned to another employee rather than sold. And in another finding, ownership (64% of fleet cars) rather than leasing (36%) remains the preferred procurement approach.

As for changes in strategy—about half of those queried contemplate some shifts. Specifically, 28% plan to use another make or model in order to enhance resale value.



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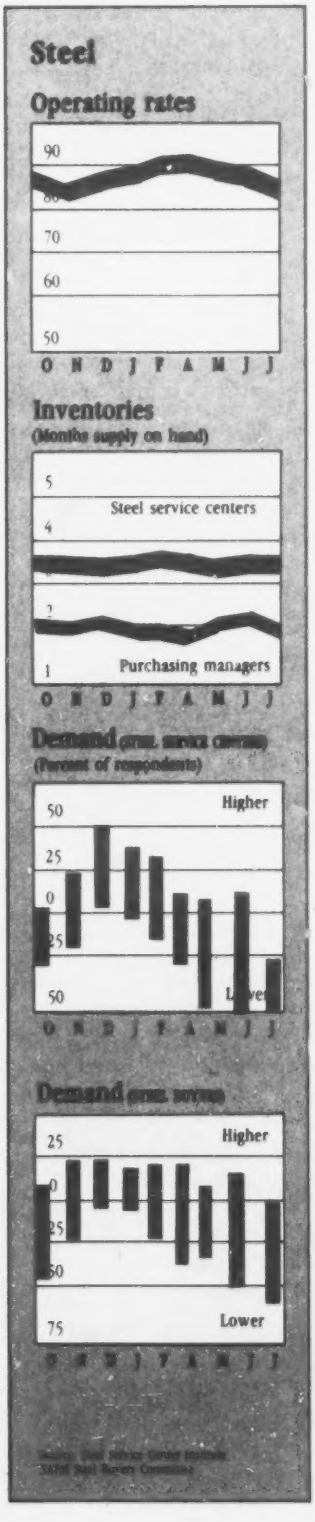

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than noted a month earlier—and less than half the number on the list when the year began.

- Factory operating rates are falling. The average utilization rate has dropped more than a full percentage point from the earlier-in-the-year 85% peak. More important, a growing number of industries are now operating at under so-called "preferred" levels.
- Inventories continue to shrink—as buyers become increasingly aware that they can now get what they want, when they want it. Not surprising, the NAPM reports inventories in decline now for seven straight months.

As one purchasing executive sums it up: "It may not be a full-fledged buyers' market, but things sure have changed. And given the supply/demand projections I've seen, the new easier climate should persist through year end—and maybe even into 1990."

STEEL SCENE

The inevitable cooling

Latest buyer and distributor surveys confirm that steel markets are continuing to weaken. Among other things, these reports suggest:

- reduced fall shipments
- dwindling supply problems
- modest price reductions.

On the demand front, for example, roughly two out of every three buyers queried by the NAPM Steel Committee expect to take in less metal over the next three months. More startling: not one single respondent expects to add tonnage, the first time this has happened in years.

Distributors responding to the latest Steel Service Center Institute (SSCI) survey aren't all that much more optimistic. The 49% who anticipate a drop in incoming orders over the next three months is more than twice the 21% who see some improvement over the same time period.

This, in turn, has prompted some caution on the part of Andrew G. Sharkey, SSCI president. He sees his group's shipments dropping 3% for the year as a whole after holding close to year-earlier levels over the first half of 1989.

As he puts it, "The strong upward thrust in metalworking markets has cooled. That cooling, however, should not be cause for undue concern. It was inevitable that it would end at some point."

On the other hand, Sharkey anticipates no free fall: the relatively weak dollar and the low cost of money will have a number of positive effects into 1990. Exports will continue to be up and imports down for machinery and equipment makers. And we anticipate that lower interest rates will help construction and the financing of consumer durable goods.

Coming back to availability—most buyers don't seem overly worried about tightness over the next six months. Only three items get scattered mention: coated sheet, cold-rolled sheet and bars. More important, 84% of those queried see no problems at all—a far cry from early last year when nine out of ten admitted to worries about at least one product.

Operating rates would certainly seem to back up buyers' optimism on this score. The current rate is put at only slightly above 80%—well under the near-90% levels prevailing as recently as this past January.

Improved availability may also be behind a trend toward lower inventories. Some 42% of queried buyers say their stocks are too high relative to demand—with not one single respondent dubbing them "too low."

Service centers seem of the same mind. The readings here: 72% "too high" *versus* only 4% "too low."

Not surprising, this shift in market balance is expected to put some downward pressure on prices. In fact, more than half of service center respondents expect declines over the next six months—far outweighing the minuscule 6% who see some increases ahead.

More important, the number expecting such weakness has been growing—from just 5% in March, to 26% in June, to *54* at latest count. And 6% now say the declines by early next year could be in excess of 5%.

Imports may also be ready to put some downward pressure on quotes. Thus 4% of buyers say

Continued...

Import prices

(compared to domestic)

Steel buyers
ABOVE 46%
SAME 23%
SLIGHTLY BELOW 27%
SUBSTANTIALLY BELOW 4%

SERVICE CENTERS (carbon)
ABOVE 4%
SAME 76%
5-10% BELOW 20%
10-20% BELOW 0%
OVER 20% BELOW 0%

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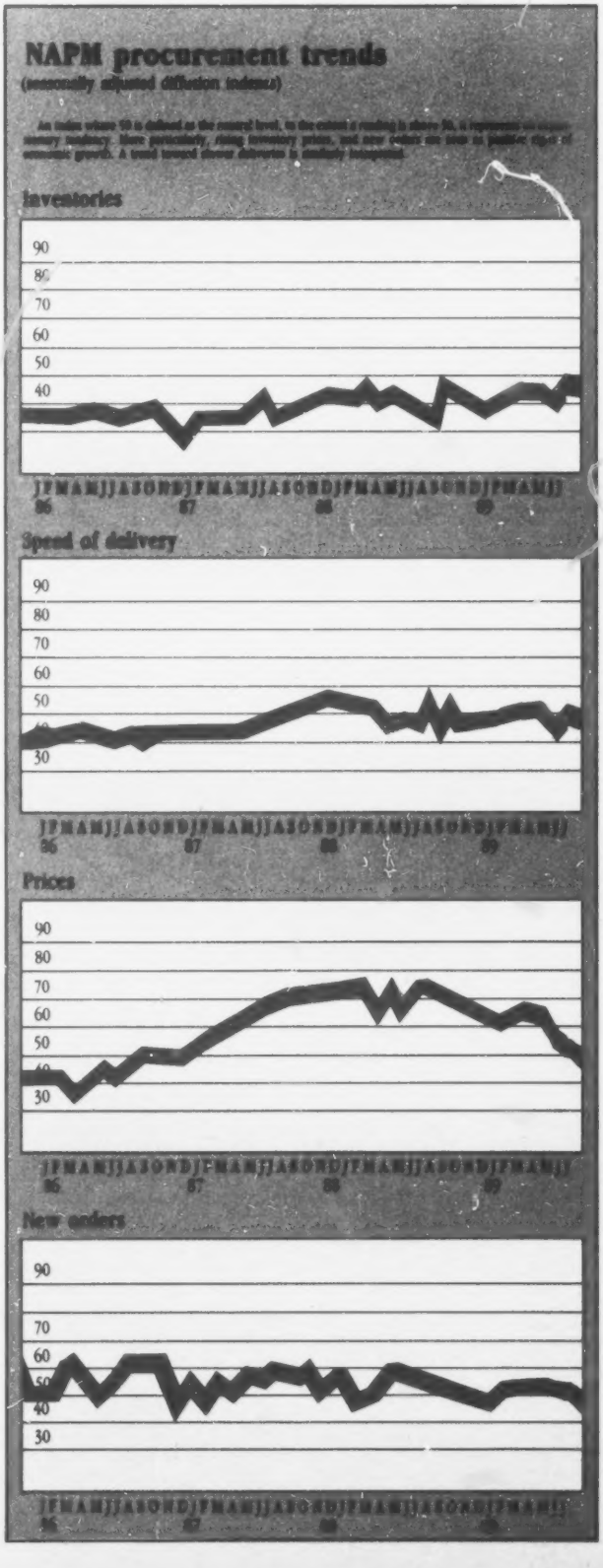
foreign mills are offering prices substantially below domestic levels. That's the first time this has happened in nearly a year, and some 20% of the service centers say they can get foreign steel 6-10% under domestic levels—double the number noted just two months earlier.

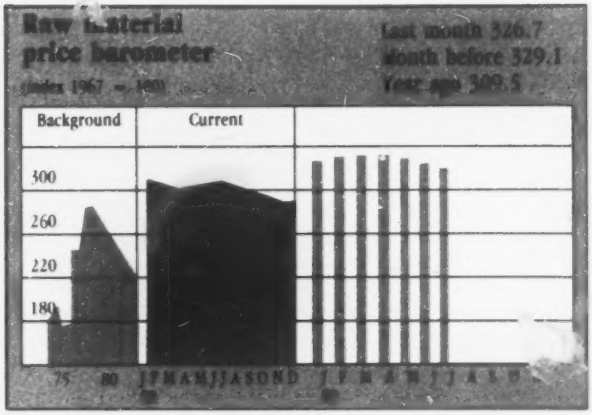
Also indicative of more overseas competition: both buyers and distributors report foreign mills are becoming increasingly active in seeking new U.S. business.

This month's breakdown

Index: 1982 = 100

	Latest level (July)	% change from: Month ago	Year ago
Bearings	124.5	0	9.1
Bolts, nuts, etc.	111.9	0	5.0
Chemicals, inorganic	108.2	0.2	6.9
Chemicals, organic	115.8	−1.5	4.8
Concrete products	111.2	0	1.0
Corrugated cartons	112.6	−0.2	1.3
Cutting tools, small	110.8	0.7	3.6
Electric lamps (bulbs)	124.8	0.6	1.7
Electronic components	119.4	−0.2	1.4
Fans and blowers	117.8	0.2	4.2
Foundry and forge products	114.9	0.3	4.5
Fuel oil (residual)	49.4	−3.5	22.3
Furniture, commercial	129.1	0.3	3.3
Gasoline	70.8	−5.3	16.3
Glass, flat	110.3	0	0.6
Glass containers	116.4	0	3.7
Gypsum products	112.5	3.1	3.6
Hand tools	128.1	0.4	6.4
Hand tools, power driven	117.1	0.9	4.9
Industrial furnaces	125.1	0.8	3.6
Integrating and measuring instruments	120.4	1.5	5.0
Internal combustion engines	114.9	1.2	3.3
Lubricating oil	111.0	−0.3	2.4
Lumber millwork	127.9	−0.2	4.5
Material handling equipment	112.1	0.2	4.3
Metal containers	111.0	0.3	0.8
Metal mill shapes (nonferrous)	136.3	0.5	4.0
Metal tanks	111.4	0.2	5.6
Motors and generators	129.7	0.4	6.7
Motor trucks	125.2	−2.6	1.5
Office and store equipment	109.8	0.5	2.1
Paperboard	140.2	−0.8	4.4
Paper boxes and shipping containers	130.3	0	4.7
Paper office supplies	122.7	0.7	6.0
Paint	120.3	0.9	6.4
Plastic resins	137.2	−1.2	1.8
Precision measuring tools	125.3	0	3.2
Pumps and compressors	115.4	0.3	5.7
Refractories	120.0	0.1	5.4
Rubber belts and belting	113.7	1.2	7.3
Scales and balances	106.4	0.1	0.8
Steel products	114.7	−0.1	3.2
Switchgear	119.3	0	5.4
Textiles, synthetic fibers	107.1	0.9	9.7
Textiles, gray fabrics	115.5	0.9	0.5
Tires and tubes	97.2	−0.8	3.1
Transformers and power regulators	118.1	0.3	8.5
Welding equipment	122.5	0.2	3.8
Wire and cable	140.5	−2.0	11.2





Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	18.70	18.70	16.50
Steel, bars, Pitts., cwt.	18.70	18.70	16.50
Steel, bars, C.R., Pitts., cwt.	25.20	25.20	19.45
Steel, plates, Pitts., cwt.	23.25	23.25	22.75
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	22.75
Steel, sheets, C.R., Detroit, cwt.	29.65	29.65	28.15
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.82	.84	1.21
Antimony, N.Y., dealer, lb.	.95	.98	.99
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.90
Brass, red, 85%, [sheet], lb.	1.81	1.70	1.60
Brass, yellow, [sheet], lb.	1.77	1.66	1.55
Cadmium, N.Y., dealer, lb.	4.60	6.10	7.80
Copper, electrolytic, wire bars, refd., lb.	1.18	1.07	.96
Copper sheet, over 24 in., lb.	1.90	1.79	1.68
Lead, common, N.Y., lb.	.42	.39	.36
Magnesium, pig ingot, [99.8%], lb.	1.63	1.63	1.58
Mercury, 50 fl. lots, N.Y., fl.	270.00	290.00	370.00
Molybdenum, oxide, dealer, lb.	3.32	3.48	3.37
Nickel, cathode, dealer, lb.	5.85	5.45	6.60
Platinum, dealer, oz.	494.00	508.00	534.00
Silver, N.Y., oz.	5.20	5.36	6.68
Tin, N.Y., dealer, lb.	4.38	4.62	3.37
Zinc, Prime West, East St. Louis, lb.	.82	.80	.66
Zinc, die casting alloy, No. 3, lb.	.920	.880	.735
PAPER			
Uncoated book #3 offset, ton	1020.00	1020.00	920.00
Watermarked bond, ton	1090.00	1095.00	1070.00
Gummed sealing tape, carton	18.75	18.68	17.76
Grocery sacks, ton	495.00	495.00	455.00
Solid bleached paperboard, ton	780.00	780.00	685.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	410.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.284	.286	.281
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.22	1.22	1.20
Cotton middling, 1", N.Y., lb.	.703	.648	.604
Printcloth, 48", 80x80, N.Y., spot, yd.	.500	.500	.500
Army duck, 37", 13 oz., yd.	1.40	1.40	1.51
Blended printcloth, 64", 78x54, yd.	.79	.78	.72
20s combed yarns	1.89	1.89	1.96
Wool 64s, Staple, lb.	3.50	3.50	4.50
CHEMICALS			
Acrylonitrile, tanks, lb.	.400	.400	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	70.00	65.00	91.00
Benzene, petroleum, tanks, Houston, gal.	.95	.97	1.11
Caustic soda, 76% solid, drums, carlots, cwt.	28.00	28.00	26.00
Cresylic acid [over 25%], tanks, lb.	.55	.55	.55
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.845	.845	.735
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.42	.49	.58
Naphthalene, crude, tanks, lb.	.16	.16	.22
Phthalic anhydride, tanks, lb.	.40	.41	.35
Polyethylene resin, low density liner film grade (market place), lb.	.390	.440	.525
Polypropylene, homopolymer grade (market price), lb.	.430	.430	.525
Polystyrene, general purpose grade (market price), lb.	.545	.545	.600
Polyvinyl chloride, pipe grade (market price), lb.	.395	.405	.420
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.425	.425	.450
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	130.00	138.00	132.00
Sulfuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	1.02	1.02	.87
Xylene tanks, gal.	.875	.950	.910
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	342.72	334.33	336.75
Lumber 2x2 pine, mbf, cl	332.64	321.51	329.45
Plywood, plyform, ¾", msf, cl	598.00	608.72	578.79
Plywood, ⅜", msf, cl	360.17	354.72	399.05
Cement, bulk, ton, tl	63.24	63.14	65.45
Sand, ton, cl	7.03	7.12	7.67
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	47.89	48.67	48.01
Crushed stone, 1½", ton, cl	N.A.	N.A.	N.A.
Concrete blocks, sand/gravel, 8"x8"x16", per hundred	89.59	89.59	N.A.
Reinforcing bars, whse base; per cwt	22.55	22.67	20.94
Asphalt paving AC-20	107.43	108.22	120.78
Vitr. Clay Sewer Pipe, Prem Joint, 12", per ft, cl	N.A.	N.A.	N.A.
Concrete sewer pipe, 24", prem. joint, per foot, cl	17.83	17.89	N.A.
FUELS			
Crude oil (W. Tex Int Cush), bbl.	18.20	20.55	15.70
Diesel (reseller rack, Chi), gal.	.4950	.4950	.4275
Fuel oil No. 2 (N.Y.), gal.	.4835	.4885	.4375
Fuel oil No. 2 (Gulf spot), gal.	.4675	.4875	.3900
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	19.25	20.00	15.75
Gasoline (reg lded NY), gal.	.5275	.6085	.4910
Gasoline (reg unlded NY), gal.	.5125	.5885	.4700
Kerosene (reseller rack, Chi), gal.	.5810	.5775	.4750
Propane (Mt. Belvieu, Tex), gal.	.2050	.1988	.2100
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	103.00	102.00	120.00
Steel, No. 1 hvy., dlvd., Chi., ton	108.00	108.00	120.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	1.010	.935	.855
Copper, No. 2, East, wholesale buy, dlvd., lb.	.925	.860	.760
Brass, red, East, wholesale buy, dlvd., lb.	.970	.895	.815
Brass, yellow, East, wholesale buy, dlvd., lb.	.575	.570	.470
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.470	.525	.650
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.540	.600	.730
Zinc, old, East, wholesale buy, dlvd., lb.	.38	.38	.24
Lead, clean solids, East, wholesale buy, dlvd., lb.	.230	.220	.225
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	Nom	Nom.	25.00
Paper, old corrug. box, dlr., N.Y., ton	Nom.	Nom.	10.00
Old newspapers, Chi., ton	Nom.	Nom.	10.00
Old white ledger, Chi., ton	75.00	75.00	85.00

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), The Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]

Transport rates increase less

Good news for buyers of transportation services: Rate increases this year look to average out a bit under the estimates made just a few months back by Wharton Econometric Forecasting Associates (the WEFA Group).

In their newly revised quarterly rundown (prepared exclusively for *PurchasingWorld* readers), analysts at the Bala Cynwyd, PA-based economic consulting firm put the 1989 overall increase at only 3.5%.

Some of the deceleration can be traced to the smaller demand gains anticipated for the current year. WEFA sees only about a 1.7% tonnage gain for 1989—well under the 3.1% advance racked up last year.

This, plus relatively moderate carrier material cost hikes (especially oil), suggests continuing modest rate increases. Wage pressures will accelerate a bit—but not enough to offset somewhat easier material costs.

WEFA's forecast then calls for an average transportation rate hike of only 3.4% in 1990 (actually under this year's estimated 3.5% advance). And even in 1991, the boost is put in the tolerable 4.5% range.

But averages hide some diverging mode-by-mode trends. Thus barge rates will actually be down by more than 5% this year—as corrections are made to offset last year's drought-inspired runup. Most other modes, meantime, are expected to come in with 4-5% boosts this year.

● **Trucking:** Don't expect anything like last year's big 8.2% tonnage increase—as manufacturing activity slows a bit. True, rates have advanced because of higher first half fuel costs—but nothing like the cost increases would have suggested.

Upshot: WEFA sees a 4.8% rise in rates this year—probably more than traffic increases would warrant but well under the percentage rise in costs. In 1990, expected lower fuel prices should allow rates to slow to a 3.5% rise before they pick up to 4.6% again in 1991 as labor rates advance.

● Railroads: The U.S. increase in exports last year helped make for a solid 5.2% ton-mile gain. This year's gain, however, will be less—despite the fillip provided by imports of goods in containers on doublestack cars.

As for rates, they continue to be held down by competition from trucks—and this could be a powerful tool in labor negotiations. Another possible rate-moderating factor is the productivity adjustment incorporated by the ICC for use in an adjustment factor in determining permissible rate hikes.

The adjustment reduces such increases whenever productivity grows—thus, in effect, passing efficiency gains on to shippers.

● **Air cargo:** Domestic traffic was up a dramatic 16.4% last year—with international freight rising by an even larger 20.5%. This was probably the reason for much of last year's big 8.2% air freight rate boost.

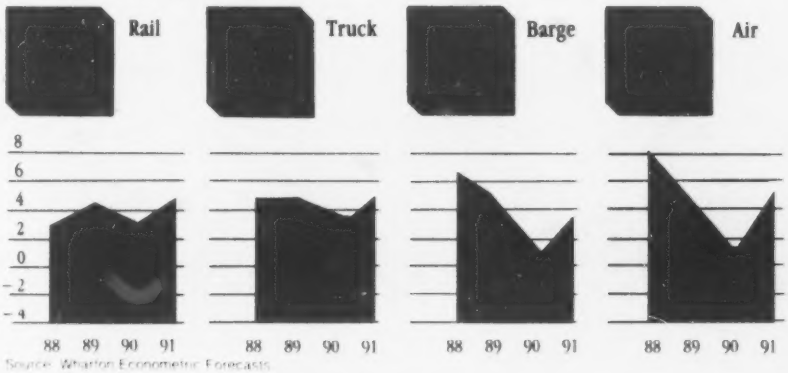
This year's smaller tonnage gains (so far under 10% on the domestic level) will help hold down rate hikes. So will competition in the international area—as domestic players like Federal Express, Emery, and United Parcel Service expand their services overseas. In any event, price hikes are forecast to average only 5.4% this year, and 3.2% in 1990.

● **Water freight:** Prodded by last year's drought, barge rates logged a 6.8% advance in 1988—a dramatic change from the flat to declining tag pattern of earlier years. This big rate hike, however, has to be regarded as a one-shot deal. Ergo, prices should drop back toward pre-drought levels this year—posting a 5.3% decline.

Longer term, WEFA looks for a gradual return to normalcy—with rates rising 1.7% and 3.9% in 1990 and 1991, respectively. **PW**

Freight cost outlook by mode

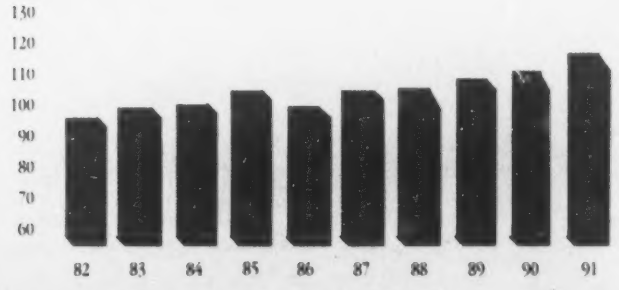
(percent increase over previous year)



Source: Wharton Econometric Forecasts

PurchasingWorld freight rate index

(1982 = 100)



	INDEX	% CHANGE
1981	110	
1982	100	−9.1
1983	103	3.0
1984	104	0.6
1985	108	4.6
1986	107	−1.2
1987	110	3.0
1988	115	4.7
1989	119	3.5
1990	123	3.4
1991	129	4.5